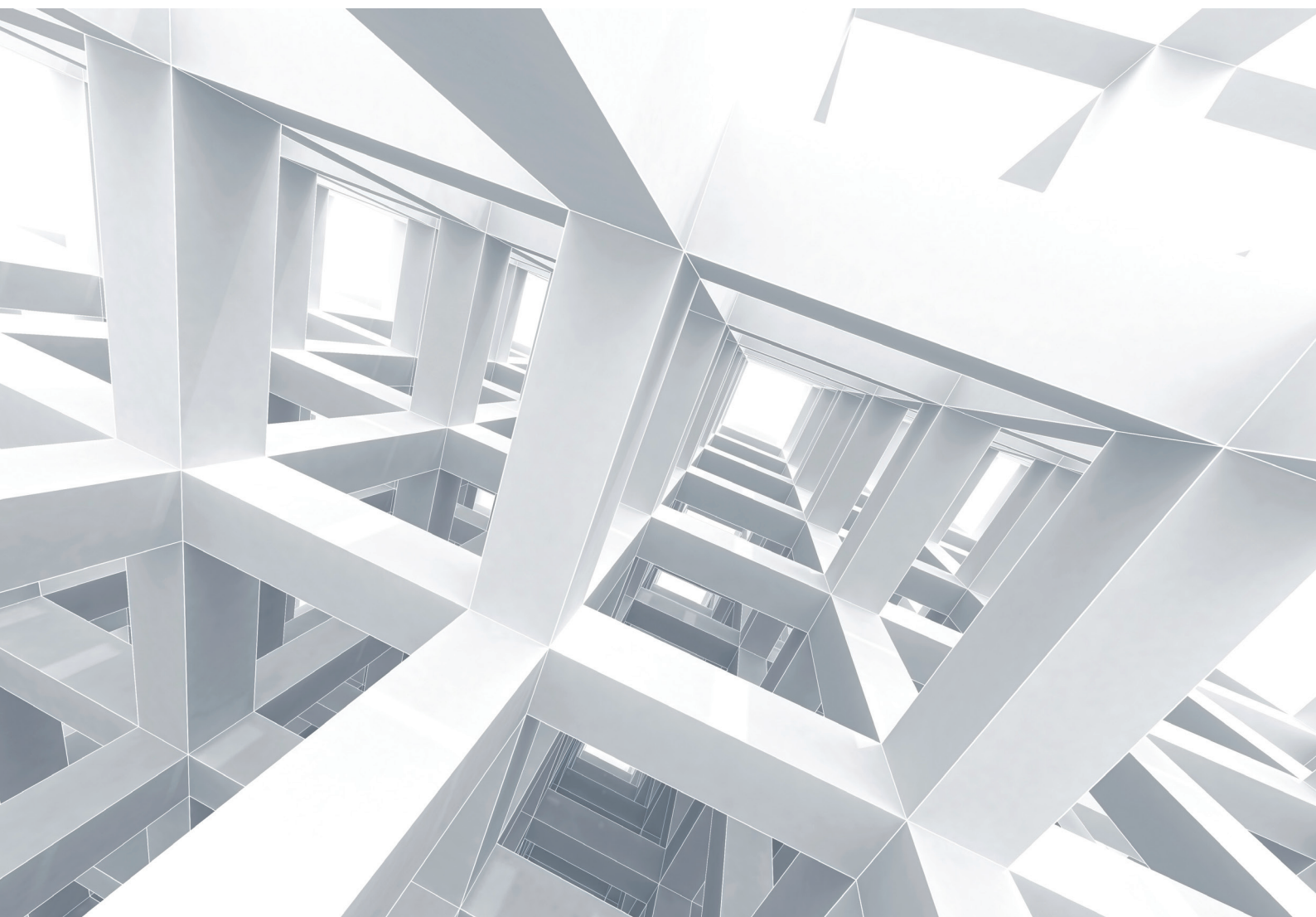




RICS professional standards and guidance, UK

Reinstatement cost assessment of buildings

3rd edition, February 2018



Reinstatement cost assessment of buildings

RICS guidance note, UK

3rd edition, February 2018



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RICS professional standards and guidance

RICS guidance notes

Definition and scope

RICS guidance notes set out good practice for RICS members and for firms that are regulated by RICS. An RICS guidance note is a professional or personal standard for the purposes of RICS Rules of Conduct.

Guidance notes constitute areas of professional, behavioural competence and/or good practice. RICS recognises that there may be exceptional circumstances in which it is appropriate for a member to depart from these provisions – in such situations RICS may require the member to justify their decisions and actions.

Application of these provisions in legal or disciplinary proceedings

In regulatory or disciplinary proceedings, RICS will take account of relevant guidance notes in deciding whether a member acted professionally, appropriately and with reasonable competence. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS guidance notes into account.

RICS recognises that there may be legislative requirements or regional, national or international standards that take precedence over an RICS guidance note.

Document status defined

The following table shows the categories of RICS professional content and their definitions.

Publications status

Type of document	Definition
<i>RICS Rules of Conduct for Members and RICS Rules of Conduct for Firms</i>	These Rules set out the standards of professional conduct and practice expected of members and firms registered for regulation by RICS.
International standard	High-level standard developed in collaboration with other relevant bodies.
RICS professional statement [PS]	Mandatory requirements for RICS members and regulated firms.
RICS guidance note [GN]	A document that provides users with recommendations or an approach for accepted good practice as followed by competent and conscientious practitioners.
RICS code of practice [CoP]	A document developed in collaboration with other professional bodies and stakeholders that will have the status of a professional statement or guidance note.
RICS jurisdiction guide	This provides relevant local market information associated with an RICS international standard or RICS professional statement. This will include local legislation, associations and professional bodies as well as any other useful information that will help a user understand the local requirements connected with the standard or statement. This is not guidance or best practice material, but rather information to support adoption and implementation of the standard or statement locally.

1 Introduction

1.1 This publication is intended as a guide for RICS members and RICS-regulated firms that carry out reinstatement cost assessments of buildings. It provides detailed recommendations on:

- the manner in which assessments should be approached
- the nature and extent of the information to be collated and
- the manner in which this information should be processed and the assessment calculated and submitted.

1.2 By publishing this document, RICS aims to:

- bring an element of uniformity into the approach to assessments
- improve consistency and reduce the level of confusion and
- demonstrate the level of professionalism that it is advisable be shown by RICS members and RICS-regulated firms in carrying out such instructions.

By adopting consistent methods for taking instructions, inspecting buildings, collating information and calculating and submitting assessments, RICS members and RICS-regulated firms should be able to carry out their assessments with speed, accuracy, efficiency and economy.

1.3 The Financial Conduct Authority (FCA) was established in 2013 and it regulates conduct relating to the marketing of financial products. While the provision of a reinstatement cost assessment (RCA) is not an activity that requires regulation, advising on the need for and scope of cover or dealing with any claim on a policy does require authorisation. RICS is a Designated Professional Body and can grant a licence to firms and regulate them for the purpose of general insurance mediation activities. Detailed guidance on FCA regulation is outside the scope of this guidance note but RICS members and RICS-regulated firms should ensure that they do not undertake regulated insurance activity without authorisation.

1.4 Guidance on the assessment of rebuilding costs for houses and flats is available through the Rebuild Online service offered by RICS' Building Cost Information Service (BCIS).

Where dwellings fall outside the intended scope of those models (e.g. due to larger floor area or higher levels of specification, or mixed-use), RICS members should follow the procedures laid down within this document.

2 Taking instruction

2.1 RICS members and RICS-regulated firms should clarify with clients that an assessment of building reinstatement cost for insurance purposes is required and not a valuation (which would be subject to the requirements of the *RICS Valuation – Global Standards* and the *RICS Valuation – Professional Standards UK January 2014 (revised April 2015)*, the ‘Red Book’) or survey. Plant and machinery, and arts and antiques also fall within the Red Book.

2.2 RICS members and RICS-regulated firms should establish with clients and/or their professional advisers the extent of what is to be insured. Particular care is to be taken in relation to fixtures and contents, including tenants’ fixtures and fittings and external areas, that the terms of the lease require the landlord to insure, unless it is the tenants’ responsibility to supply a value for these. RICS members and RICS-regulated firms should confirm in writing their instructions to their clients. If there is a claim and a subsequent dispute about whether particular items fall within the policy definition of ‘Buildings’ the assessment may be referred to in order to establish the intention of the insured and whether the items have been allowed for in the sum insured.

2.3 RICS members and RICS-regulated firms should define the extent of the property to be included in the assessment.

2.4 RICS members and RICS-regulated firms should define the exact extent of their instructions. It can prove valuable, for example, to determine whether they are dealing with all elements on the site or whether there are any exclusions. It is advisable for RICS members and RICS-regulated firms to establish whether their clients require additional consultancy advice.

2.5 It is not necessary to receive the policy’s renewal date but clarity needs to be obtained as to what the base date for the assessment should be, which may be the forthcoming renewal.

The client’s insurers will invariably require the assessment figures some time ahead of that date. This will determine the date by which RICS members and RICS-regulated firms should submit their assessment to their clients, who may also need time to review the advice, possibly with their broker or other advisers, prior to submitting it to their insurers.

2.6 It is advisable to obtain any other relevant background information from the client if possible. It can prove valuable for the RICS member or RICS-regulated firm to determine whether original construction drawings, photographs and information are available.

2.7 Desktop assessments that do not involve site visits fall outside the scope of this guidance note and insurers may not accept this as a basis for setting cover.

3 The reinstatement cost assessment – basis of assessment

3.1 This guidance note is intended to assist in the preparation of reinstatement cost assessments based on a site visit (see paragraph 2.7), measurement and assessment of reinstatement cost (please refer to the current edition of *RICS property measurement* professional statement for further information). The guidance will also apply to any subsequent update of this assessment using these principles.

3.2 Generally, all assessments are made on the basis of total loss or of such substantial damage that the entire building will require demolition and rebuilding.

3.3 The usual requirement for a reinstatement cost assessment is that it is prepared on the basis of a 'day one reinstatement' figure known as the declared value (see appendix C for explanation), though it is prudent for this to be confirmed in the instructions and referred to in the final report. In calculating the declared value, RICS members and RICS-regulated firms should ignore the effects of inflation during the period of the insurance policy as this is allowed for in the inflation provision (see appendix C).

The declared value figure should be the equivalent of a fixed price, lump sum, competitive tender submitted by a suitable and competent contractor for works to commence on site on the first day of the period of insurance (net rebuilding cost – see section 5), together with appropriate allowances for demolition and other costs and all associated professional and other statutory fees (see section 6).

3.4 If the insurance is not to be written on a day one reinstatement basis, but on some other basis giving the same 'new for old' cover, RICS members and RICS-regulated firms should establish exactly how the sum insured is to be calculated. It may have to be based on the assumption that a total loss occurs on the last day of insurance and that on that date it should be sufficient to pay for reinstatement allowing for all the time that might take and the delays that could occur. Some policies in the insurance market include allowances for index-linking of sums insured. This is not a problem if it is the sum insured at each renewal that is increased automatically in accordance with an index, that will not affect the current risk assessment.

However, if index linking of a sum insured is different to this, care is needed. Appendix D explains how index linking can operate in different ways. If in doubt, the assessment should make it clear how much allowance has been made for inflation and during what periods.

3.5 Most commercial buildings in the UK are insured on a reinstatement (i.e. new for old) basis. The day one reinstatement basis is the most popular form of this, particularly for buildings insured by a landlord and leased.

If there is no intention to repair or reinstate a damaged building, then some other basis of settlement may be more suitable and appendix C gives information on the alternatives.

3.6 It is prudent to incorporate recommendations within the report to the effect that the client needs to reassess the sum insured on a regular basis, with an annual adjustment to reflect inflationary effects, and a major review and reassessment every three years, or earlier should significant alterations be made to the insured property.

4 Building inspection and collecting information

4.1 The quality of information initially gathered, and later collated, is pivotal to the accurate assessment of the reinstatement cost.

4.2 An inspection of the property will be required in order to gather the information needed to complete the reinstatement cost assessment. During the course of the inspection the RICS member or RICS-regulated firm is advised to:

- a.** Make a general inspection of the property and its environs before beginning the detailed inspection and confirm that the extent of the property being inspected conforms to the description given by the client.
- b.** Assess the age of the building. If an assessment cannot be given without a degree of certainty, the RICS member or RICS-regulated firm should give an opinion of the building's era and evolution.
- c.** Consider whether there are any restrictions to demolition and rebuilding that will result from the surrounding environment. Are there buildings, the occupation of which may affect working hours? Are any special protection works likely to be necessary? Is the building detached, semi-detached or terraced, therefore do party walls, temporary protection, insurers, etc. need to be considered? Consider proximity to public transport infrastructure and location within the city congestion zones.
- d.** Consider whether there are likely to be any deleterious materials that will increase the cost of demolition and debris removal due to higher disposal costs, i.e. review the asbestos register.
- e.** Take sufficient notes, photographs and measurements and produce sketches to record:
 - i.** the layout of the building
 - ii.** measurements sufficient to calculate the IPMS 2/ GIFA for each different type of construction; these should be in accordance with the current edition of the RICS professional statement *RICS property measurement*
 - iii.** a schedule of the accommodational use
 - iv.** a summary of the building's structure, and the different types of construction, eaves, ceiling heights and finishes
 - v.** a summary of the building's services (for example, sprinkler provision, lifts and air conditioning)
 - vi.** a summary of the external areas, boundaries, outbuildings, etc.
 - vii.** a summary of specialist features (these may be internal or external features considered as extra over

the standard building finishes or that influence the basis of assessment, for example, marble cladding, ornate stonework or timber panelling) and

viii. a summary of general topography.

5 Net rebuilding cost

5.1 With few exceptions, the final assessment figure will comprise the total cost of completely rebuilding the property to be insured (net rebuilding cost), together with allowances in respect of other matters, including:

- a. demolition and debris removal and
- b. professional and statutory fees.

For further detail on the above see paragraphs 6.1 and 6.2.

5.2 To carry out the reinstatement cost assessment, the RICS member or RICS-regulated firm will need to determine the IPMS 2/GIFA measurements of the building according to *RICS property measurement*.

5.3 The net rebuilding cost is normally calculated by multiplying the gross internal area of the building by a suitable rate for its reconstruction.

5.4 It is advisable for the net rebuilding cost of the whole property to include:

- a. the cost of rebuilding the whole of the building in its present design and materials, to its existing shape and size, including basements, foundations and retaining walls
- b. any tenants' alterations for which the landlord has a responsibility to insure
- c. allowance for modifications to the design and specification required to comply with current Building Regulations and statutory requirements and
- d. all external works and services such as drainage, manholes, water supply, electricity supply, boundary structures and outbuildings (if required by the policy).

Evidence for current building costs can be obtained from various sources including BCIS, price books and in-house costings for similar projects.

5.5 Average prices for reinstatement costs are usually generated from a wide range of building costs that reflect differing methods of construction, scopes of work and standards of finishes.

Care should be taken to ensure that the building rate is suitable for the building being assessed. An elemental breakdown of the reinstatement cost may assist in the accurate calculation of a suitable rebuilding rate for the property. If this approach is used it is recommended that building elements and definitions applied are those as defined in the most recently published edition of the *Elemental Standard Form of Cost Analysis (SFCA): Principles, Instructions, Elements and Definitions* published by BCIS. This is particularly important for historic and/or complex buildings. An example of a reinstatement cost assessment calculated in this manner is included at appendix A.

5.6 The RICS member or RICS-regulated firm should consider the location of the property in considering the

rebuilding rate, as it is advisable to take local variations in construction costs into account.

5.7 Approximate quantities may also be used to assist in the appropriate allocation of costs in the elemental breakdown.

5.8 RICS members and RICS-regulated firms are advised to confirm with the appropriate authority:

- whether the property is listed
- if so, the category of listing and
- whether this applies to the whole or part of the building.

Any listing may have an impact on the reinstatement cost. The RICS member or RICS-regulated firm should take these effects into account.

5.9 In a conservation area, restrictions will apply that may affect reinstatement cost levels and timescales for rebuilding.

5.10 With listed or specialist buildings, the RICS member or RICS-regulated firm should have regard to abnormal costs relating to:

- programme implications
- replacement using vernacular materials and uncommon traditional techniques in replicating items such as ornamentation, lead work and stonework, and the like and
- the involvement of heritage bodies.

5.11 RICS members and RICS-regulated firms should consider other adjustments that might be necessary to account for additional costs of reconstruction. For instance, the location of the property may be such that there are particular access restrictions, such as river frontage or pedestrianised areas.

6 Additions to net rebuilding costs

It is advisable for the reinstatement cost assessment to include certain additions (6.1 to 6.3 below) to take account of further costs that will be incurred in the reconstruction of the building.

6.1 Debris removal, demolition and shoring up party walls

6.1.1 The assessment should incorporate an allowance for demolition of any remaining sections of the building and associated site clearance prior to reinstatement. The method of calculation is typically undertaken by way of a percentage proportion over the construction cost, or as a lump sum based on published rates.

6.1.2 It is worth considering additional demolition costs, where applicable, due to factors such as site access difficulties, demolition of reinforced concrete and high-level working.

6.1.3 It is also worth considering the presence (or potential presence) of deleterious materials such as those containing asbestos. These will present demolition and removal difficulties and will result in increased costs.

6.1.4 Insurance cover for removal of building debris is usually restricted to the site and an area immediately adjacent to the site. RICS members and RICS-regulated firms should check there is cover for clearing, cleaning and repairing services to the site. Cover for cleaning up pollution and contamination from buildings and the site on which the buildings stand may be limited to a sum stated within the policy.

6.1.5 Market wordings for debris removal cover do vary. It is advisable to ask for a sight of the wording so that the reinstatement cost assessment is drawn up on the basis of the exact cover being given. Alternatively, and especially when there are particular potential problems at the site, the assessment should make it clear how the figures have been arrived at so they can be checked against the cover.

6.2 Professional fees

6.2.1 It is advisable to ensure that the reinstatement cost assessment (RCA) makes allowance for fees necessarily and reasonably incurred in the reinstatement or repair of a building. This should relate to the charges of architects, engineers, surveyors, and anyone else whose services are required if the work is to be done satisfactorily.

Professional fees incurred in the preparation and negotiation of claims settlements, as opposed to reinstatement of damage, are not covered under this heading.

Professional fees for dealing with reinstatement of damage will often be higher than those for procuring new buildings, and it is advisable to make due allowance for this factor.

6.2.2 The assessment should allow for local authority planning and Building Regulations costs and also include an allowance for all fees of professionals necessarily incurred in the reinstatement of the building. Depending on the complexity of the building, the list may include surveyors, architects, structural engineers and, in the case of attached buildings, party wall surveyors.

6.2.3 It is worth carefully considering the level of fees pertaining at the time. It is advisable to regularly update the fee allowance as the economic climate changes.

6.3 Public authorities' stipulations

Since the purpose of the RCA is to establish the cost of reconstructing a building following total destruction, in as close a form to the original as is permitted by current regulations, then this compliance will form an increasingly significant part of the RCA. RICS members and RICS-regulated firms should incorporate sufficient allowance for compliance with current legislation. It is therefore advisable for RCAs to be constantly reviewed, as inflation indexation is not the only variable.

7 The assessment report

7.1 The final report may be read by people with limited knowledge of insurance or property matters, so it is important to write it in clear and concise lay terms.

An example of a full report is included at appendix B.

The purpose of the report is to provide a summary of reinstatement cost. It is not necessary to provide information such as calculations, rates and adjustments used and the like.

7.2 The report should include a section summarising the nature of the instruction and the basis on which the assessment has been undertaken.

The report should include a description of the property, along with details of the inspection undertaken, recording any limitations or restrictions encountered.

7.3 The main section of the report should include a summary of the recommended base sum insured.

It is usual to 'round' the total figure. Rounding can assist in simplifying matters for insurers when calculating premiums.

The body of the report sets out the basis of the assessment and any specific caveats, typically recording:

- a. details of all areas covered, such as demolition, site clearance and professional fees being included
- b. extent of the site covered, namely whether elements such external car parks, paving and circulation areas are included
- c. specific exclusions, such as tenant's fit-out, fixtures and furniture (although note may be made of elements of tenant-installed items that have been treated within the assessment)
- d. commentary as to whether potential contamination issues have been included or excluded from the assessment and
- e. confirmation that the assessment relates only to building insurance or material loss policies.

7.4 It is advisable for the report to incorporate declarations and caveats in respect of the following:

- a. It does not purport to give advice or make comment in respect of the condition of the property.
- b. The declared value for insurance purposes has no direct relationship to the market value of the property.
- c. The assessment has been prepared for insurance purposes in accordance with this guidance and it should not be used for any other purpose.

7.5 The report should include a summary of the reinstatement costs, showing the core elements of the assessment, including:

- a. a description of the property
- b. specific inclusions and exclusions

- c. the base sum insured and
- d. the reinstatement period.

This section can be of particular use to instructing clients as they may choose to extract it and issue it direct to their insurers. However, the RICS member or RICS-regulated firm undertaking the assessment is advised not to issue this summary page in isolation, as it does not incorporate any relevant caveats or limitations of the assessment.

7.6 It is recommended that the report include key photographs of the subject property, along with a site plan for reference purposes.

8 Reinstatement period

8.1 It is recommended that the RICS member or RICS-regulated firm advises on the likely period required to complete the rebuilding of the property.

8.2 This assessment of the reinstatement period should take into account:

- the redesign period, which will include demolition, site clearance, design, tender, and obtaining statutory and local authority consents and
- the construction period.

8.3 If there are site or property factors such as archaeology, it is advisable for these to be considered in the rebuilding period.

Appendices

- A Elemental breakdown
- B Report example
- C Types of assessment
- D Index linking
- E VAT
- F Useful information sources

Note: Appendices A and B are provided for illustrative purposes only.

Appendix A: Elemental breakdown

International Construction Measurement Standard (ICMS) aims to provide global consistency in classifying, defining, measuring, analysing and presenting entire construction costs at a project, regional, state, national or international level. It is a cost classification system.

RCA research notes

Property:

Type:

	Element	Description	Rate	IPMS 2*	Cost	Notes
1	Substructure					
	Substructure	Unknown - presumed piled given age and size of building	210	2855	599,550	
2	Superstructure					
2.1	Frame	Cast in-situ reinforced concrete frame	135	2855	385,425	Increase demolition rate as concrete framed
2.2	Upper floor	Cast in-situ concrete on permanent metal shuttering	45	2855	128,475	
2.3	Roof	Flat roof with an asphalt covering. The roof over the 6th floor also has a single layer of felt applied (assumed as a remedial measure for water ingress). The other flat roofs balconies are asphalt covered.	100	2855	285,500	Tall buildings so reduce roof rate relative to floor area
2.4	Stairs	Precast reinforced concrete. There are two sets of stairs in the central core. One serves all floors and the other serves the basement to the 4th floor. There is a further metal spiral staircase between the 5th and 6th floors.	35	2855	99,925	
2.5	External walls	Masonry party walls with adjoining properties and cast in-situ reinforced concrete walls	160	2855	456,800	
2.6	Windows and external doors	Double-glazed aluminium windows and external doors, timber fire exit and plant and machinery doors, 2no. concertina goods doors and 1no. roller shutter door to the basement garage.	100	2855	285,500	
2.7	Internal walls and partitions	Demountable partitioning on most floors (except 3rd and 4th floors that are open plan). Stud partitioning to the core areas to divide space into WCs and kitchenette.	35	2855	99,925	Advise client that tenants demountable partitions are included in our assessment
2.8	Internal doors	All internal doors are flush painted timber doors. Some have Georgian wired vision panels.	20	2855	57,100	

Appendix B: Report example

Reinstatement cost assessment for insurance purposes

Report particulars

REINSTATEMENT COST ASSESSMENT FOR INSURANCE PURPOSES IN RESPECT OF RICS HOUSE, HIGH ROAD, LONDON ON BEHALF OF RICS LTD		
Our Ref:	[job no./SURVEYOR/typist]	Prepared by:
Date:	[date]	[Company Name] [insert address]
Signed	Tel: [insert tel] Fax: [insert fax] Email: [insert email]
For and on behalf of [Company Name]		

1 Introduction

1.1 Introduction

In accordance with instructions received from ***** of RICS Limited, and confirmed by their email instructions dated 1 May 2018, we have inspected the property known as RICS House to carry out a reinstatement cost assessment for building insurance purposes on a day one basis and confirm our recommendations.

1.2 Inspection

The inspection was undertaken by *[insert surveyor's(s') name(s)]* of RCA Surveyors plc on 5 May 2018.

Access was possible to all areas of the property during our inspection.

1.3 Description

1.3.1 The property is a high specification office building of cast in-situ concrete frame construction supporting composite cast in-situ concrete floors. Elevations are stone clad, incorporating double-glazed, powder-coated aluminium windows. Roofs are flat and asphalt covered.

1.3.2 The property fronts onto High Road, while adjacent properties abut on the north and east elevations.

1.3.3 Internally, the premises comprise lower ground, ground and 6 upper office levels; plant is located at level 6; parking for 15 cars is provided at lower ground level.

1.4 Declared value for insurance purposes

1.4.1 We recommend that for the forthcoming year commencing 1 May 2018 the base sum insured for the building be as shown on the attached schedule in the total sum of: £7,300,000.

Appendix C: Types of assessment

To understand the bases on which buildings are, or need to be, valued it is prudent to understand indemnity, which is one of the three basic principles of insurance.

The objective of indemnity is to place the insured, as nearly as possible, in the same financial position after a loss as that they were in immediately before the loss event. All insurance policies are contracts of indemnity but the basis on which indemnity is measured will vary to suit different circumstances.

Some measures of indemnity, such as day one reinstatement, may leave an insured better off (as explained below). This can give rise to a belief that 'reinstatement' and 'indemnity' are two different measurements. They are not. Reinstatement is just one way of assessing indemnity. If a building is not going to be repaired following damage or will not be repaired if the cost exceeds an economic figure, some other basis of indemnity may be more appropriate.

Within this guidance note, consideration is given to the most common variants of assessment likely to be requested:

- a. day one reinstatement
- b. reinstatement including inflation provision
- c. reinstatement less wear and tear ('indemnity' basis)
- d. obsolete buildings
- e. site clearance, debris removal and 'making safe' costs only and
- f. second-hand value of building materials.

Additionally, or alternatively, a client may request a current assessment of market value. If such a request is received, the RICS member or RICS-regulated firm must refer to the extant edition of *RICS Valuation – Global Standards* (the RICS Red Book) and UK supplement, which set out mandatory requirements for members undertaking this type of work. The reference to 'alternatively' is because market value may in some cases be used as a means of arranging policy cover. If repairs to a building insured on an 'indemnity by reinstatement' basis are not carried out, then the insured is not entitled to an equivalent payment in cash. Instead, any claim will be based on the diminution in market value as a result of the damage. What was the value of the buildings (and site) the minute before the loss and what is the value of the remains of the buildings (and site) post loss? (This would be the measure of loss, provided that this does not exceed the cost of repairs.) If an insured decides not to effect repairs it is usually for a sound financial reason. Perhaps the building has no tenant and there is no prospect of finding one. Perhaps it is just 'in the wrong place' now. In that event the diminution in market value may be far less than the cost of reinstatement. Thus, if it is known in advance of damage that repairs will not be carried out for any reason, the insured could opt for this basis of indemnity under the policy from the outset.

This will also carry a lower sum insured and, therefore, a lower premium. This basis is usually only suitable if there is no possibility of any reinstatement being necessary or obligatory following either partial or total loss. In some cases, for example where there is redevelopment potential for a 'better and higher' use, a building may not suffer any loss of market value following damage, so there is a possibility of paying a premium but not being able to prove a loss.

(a) Day one reinstatement

Most buildings in the UK are insured on what is commonly known as the 'day one reinstatement' basis. Insurance cover arranged under such policies allows for claims to be settled on a 'new for old' basis if repairs are actually carried out. In theory, it does not matter how old a building is or what its state of repair. If insurers have agreed indemnity by reinstatement cover, the damage to the building will be repaired to a condition substantially the same as, but not better than or more extensive than, its condition when new and the insured will not have to contribute to any betterment.

'Day one reinstatement' is derived from the fact that the sum insured is made up of two elements:

- a 'declared value' and
- an 'inflation provision',

as explained below. The insurer's limit of liability for any claim is the sum insured on any particular building unless the policy provides otherwise.

Declared value

This is the cost of rebuilding and associated on costs as detailed in section 5, at the level of costs applying at the commencement of the insurance period without any provision for inflation.

Inflation provision

This is a percentage uplift selected by the insured to cover inflation during the insurance year and during the subsequent period required for designing, planning, tendering and actual reconstruction, however long that might take. The percentage selected can only be an estimate based on anticipated building costs in the future and the worst-case scenario for the length of time it could take to rebuild.

RICS members and RICS-regulated firms may be asked to comment on a suitable uplift percentage for inflation for the operative period of the policy. Commonly, percentages uplifts vary between 15 and 50 per cent, sometimes depending on how much extra premium the insured is prepared to pay for inflation protection or how much can be obtained from the insurer at no extra cost.

(b) Reinstatement including inflation provision

The basis of the RCA is as in sections 5 and 6. However, unlike the day one basis, the sum insured does not have two constituent parts recognised separately in the policy. There will be one sum insured inclusive of an allowance for inflation and it is this sum insured, rather than the 'declared value' under the day one reinstatement basis, that will be used for premium calculation and average purposes.

RICS members and RICS-regulated firms should make an allowance for inflation, for the period of the policy and the period of procurement of reinstatement work, bearing in mind that a loss might occur on the last day of a policy period. Recognising the difficulty in predicting the rate of inflation, insurers have often accepted a margin of error of 15 per cent at the time of a loss before they would impose an average and hence cover may include an '85 per cent average condition'.

Subject to the policy limit, claims will be paid in full provided that the sum insured is at least 85 per cent of the true value at risk calculated at the time of loss. This is helpful for partial losses but not if there is a total loss and the sum insured is insufficient.

(c) Reinstatement less wear and tear ('indemnity' basis)

This basis of indemnity is a feature of most policy wordings but, in practice, few buildings are insured on this basis of indemnity. It is a rarely used method of settling claims but there are circumstances in which it may be imposed by insurers or selected by an insured. When a building is very old or not in a good state of repair, the insurer may be unwilling to grant full reinstatement cover or the insured may wish to save premium by having a lower sum insured while accepting that there would be significant and inevitable betterment contribution to be made in the event of repairs being necessary.

The RICS member's or RICS-regulated firm's role in this type of survey is to value on a reinstatement cost basis, but to depreciate elements to reflect their current condition. In the case of brick walls the difference between reinstatement cost and the value less wear and tear may be slight, but in the case of services and decorations there may be little or no value included, as they have no useful life left. These elements of construction would have no value at the time of assessment and similarly no value at the time of any future claim.

(d) Obsolete buildings

The RICS member's or RICS-regulated firm's role in this type of survey is to make an assessment on a reinstatement cost basis, but to depreciate elements to reflect their current condition. In the case of brick walls the difference between reinstatement cost and the value less wear and tear may be slight, but in the case of services and decorations there may be little or no value included, as

they have no useful life left. These elements of construction would have no value at the time of assessment and similarly no value at the time of any future claim.

This rare basis of assessment could be suitable if a building would be demolished and rebuilt in a different and cheaper form if it was destroyed or seriously damaged. Partial damage would be repaired up to an agreed amount but beyond that amount the building would be knocked down and replaced by a modern building providing the same function. The premium would be calculated on the full cost of reinstatement of the existing building with a reduction to reflect that the insurers' limit of liability is a lesser amount based on the demolition of what remains of the original building and the cost of the modern replacement. The saving in premium is relatively small as most losses are partial and the insurers would only save on larger claims.

This basis is particularly useful for both insured and insurer where the 'obsolete' building is a poor risk carrying a high premium. The insured saves on premium and the insurer has a lower exposure. RICS members and RICS-regulated firms may be asked to assess the full reinstatement cost, as existing, and the comparable cost of the provision of a replacement with the same functionality to the client, which could be a different shape, or a more efficient or cost-effective design, e.g. clear span portal frames in lieu of a cumbersome and costly north light roof with many intermediate columns.

(e) Site clearance, debris removal and 'making safe' costs only

If a building is due for demolition no material cover may be necessary if, when damage occurs, the date of demolition can be brought forward.

However, the cost of demolition may be higher as a consequence of the damage or, if demolition cannot be brought forward, additional costs may be incurred in making the building safe in the meantime.

Such extra costs, arising as a result of the damage, may be assessed and insured on their own. Compliance with stringent waste control regulation and professional fees associated with supervision will need to be reflected in such an assessment.

(f) Second-hand value of building materials

This form of assessment of value is rarely requested. A building due for demolition or even redevelopment may have no value except that arising from items that have a second-hand value, such as fireplaces, architectural features and roofing tiles. If that second-hand value could be lost as a result of damage, then that value can be assessed.

Appendix D: Index linking

Some policies make provision for the sum insured to increase in line with the building index of the insurer's choice, which will probably be based on the increase in average tender prices over time. Index linking is employed more for residential risks, including blocks of flats, although such buildings may be insured on a day one reinstatement basis, especially when insured on the same policy as buildings in commercial use.

It is not always immediately clear what figure is being indexed and when that indexing starts. For example, some policies combine index linking with a day one basis and the declared value is increased by indexation, while in other policies it is the sum insured that is indexed. Further, under some policies the indexing applies during the period of insurance, so the sum insured effectively changes all the time. Often the sum insured is only increased at each renewal. Other policies only start indexing the sum insured at the date of a loss, so the effect of inflation is covered only during the rebuilding period.

Whenever index linking is used, it may be helpful to establish how and when it is applied. For example, if index linking allows for inflation after damage, allowance will need to be made for inflation before the damage.

It is advisable for the client to give clear instructions to the surveyor. The advantages of a day one reinstatement are clear and other methods of indemnity by reinstatement that require a full allowance for inflation to be made are also relatively simple. It is when a policy includes index linking, to one degree or another, that difficulties in interpretation and provision may occur.

Appendix E: VAT

The RICS member or RICS-regulated firm should record whether the assessment includes or excludes VAT.

It is advisable for assessments to take into account the building and trading position of the insured and consider each case individually with the client and the broker before the finalisation of the assessment to determine which elements, if any, VAT needs to be applied to. Even though many policies include a free allowance for VAT over and above the sum insured, it is advisable to carry out this exercise because this may not always be the case. RICS members and RICS-regulated firms should also be aware that property owners can elect the VAT status of individual properties within their ownership, and that the VAT status of their properties may not be consistent.

Appendix F: Useful information sources

F1 Links

BCIS Online: www.bcis.co.uk/online

BCIS Rebuild Online: www.bcis.co.uk/online

The Chartered Insurance Institute: www.cii.co.uk

The Financial Conduct Authority: www.fca.org.uk

F2 Further reading

Historic building conservation (1st edition), RICS guidance note, 2009

BCIS price books

Spon's price books



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 125,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our professionals are involved the same standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

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